

GENESIS ENERGY LP  
Form 10-Q  
November 08, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-12295

**GENESIS ENERGY, L.P.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
*(State or other jurisdiction of*

*incorporation or organization)*

**919 Milam, Suite 2100, Houston, TX**  
*(Address of principal executive offices)*

**76-0513049**  
*(I.R.S. Employer*

*Identification No.)*

**77002**  
*(Zip code)*

**Registrant's telephone number, including area code:**

**(713) 860-2500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Class A Common Units outstanding as of November 2, 2011: 71,925,065

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**GENESIS ENERGY, L.P.**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GENESIS ENERGY, L.P.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS***(In thousands)*

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,376	\$ 5,762
Accounts receivable trade, net	223,797	171,550
Inventories	89,730	55,428
Other	25,460	19,798
<b>Total current assets</b>	<b>343,363</b>	<b>252,538</b>
<b>FIXED ASSETS, at cost</b>	<b>511,899</b>	<b>373,339</b>
Less: Accumulated depreciation	(116,934)	(108,283)
Net fixed assets	394,965	265,056
NET INVESTMENT IN DIRECT FINANCING LEASES, net of unearned income	164,712	168,438
EQUITY INVESTEEES	331,703	343,434
INTANGIBLE ASSETS, net of amortization	101,323	120,175
GOODWILL	325,046	325,046
OTHER ASSETS, net of amortization	30,091	32,048
<b>TOTAL ASSETS</b>	<b>\$ 1,691,203</b>	<b>\$ 1,506,735</b>
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable trade	\$ 180,994	\$ 165,978
Accrued liabilities	56,568	40,736
<b>Total current liabilities</b>	<b>237,562</b>	<b>206,714</b>
SENIOR SECURED CREDIT FACILITIES	367,900	360,000
SENIOR UNSECURED NOTES	250,000	250,000
DEFERRED TAX LIABILITIES	13,715	15,193
OTHER LONG-TERM LIABILITIES	6,384	5,564
COMMITMENTS AND CONTINGENCIES (Note 14)		
<b>PARTNERS CAPITAL:</b>		
Common unitholders, 71,965 and 64,615 units issued and outstanding at September 30, 2011 and December 31, 2010, respectively	815,642	669,264
<b>TOTAL LIABILITIES AND PARTNERS CAPITAL</b>	<b>\$ 1,691,203</b>	<b>\$ 1,506,735</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**Table of Contents****GENESIS ENERGY, L.P.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(In thousands, except per unit amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>REVENUES:</b>				
Supply and logistics	\$ 765,714	\$ 523,488	\$ 2,091,854	\$ 1,351,751
Refinery services	48,392	38,437	145,301	106,160
Pipeline transportation services	16,094	14,087	45,633	41,170
<b>Total revenues</b>	<b>830,200</b>	<b>576,012</b>	<b>2,282,788</b>	<b>1,499,081</b>
<b>COSTS AND EXPENSES:</b>				
Supply and logistics product costs	710,355	490,358	1,961,038	1,251,777
Supply and logistics operating costs	33,478	25,656	83,516	73,285
Refinery services operating costs	30,136	22,251	89,986	60,268
Pipeline transportation operating costs	3,988	3,497	12,414	11,039
General and administrative	8,905	10,583	25,339	23,678
Depreciation and amortization	14,593	13,477	42,749	40,489
Net loss on disposal of surplus assets	113	7	351	25
<b>Total costs and expenses</b>	<b>801,568</b>	<b>565,829</b>	<b>2,215,393</b>	<b>1,460,561</b>
<b>OPERATING INCOME</b>	<b>28,632</b>	<b>10,183</b>	<b>67,395</b>	<b>38,520</b>
Equity in (losses) earnings of equity investees	(412)	377	3,377	922
Interest expense	(8,960)	(6,542)	(26,670)	(13,506)
Income before income taxes	19,260	4,018	44,102	25,936
Income tax expense	(172)	(155)	(626)	(1,827)
<b>NET INCOME</b>	<b>19,088</b>	<b>3,863</b>	<b>43,476</b>	<b>24,109</b>
Net loss attributable to noncontrolling interests		1,205		2,082
<b>NET INCOME ATTRIBUTABLE TO GENESIS ENERGY, L.P.</b>	<b>\$ 19,088</b>	<b>\$ 5,068</b>	<b>\$ 43,476</b>	<b>\$ 26,191</b>
<b>NET INCOME ATTRIBUTABLE TO GENESIS ENERGY, L.P. PER COMMON UNIT:</b>				
Basic and Diluted	\$ 0.27	\$ 0.12	\$ 0.65	\$ 0.48
<b>WEIGHTED AVERAGE OUTSTANDING COMMON UNITS:</b>				
Basic and Diluted	70,447	39,586	66,580	39,573

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**GENESIS ENERGY, L.P.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS**  
**OF COMPREHENSIVE INCOME**

*(In thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 19,088	\$ 3,863	\$ 43,476	\$ 24,109
Change in fair value of derivatives:				
Current period reclassification to earnings interest rate swaps		1,553		2,112
Changes in derivative financial instruments interest rate swaps		(224)		(424)
Comprehensive income	19,088	5,192	43,476	25,797
Comprehensive loss attributable to noncontrolling interests		529		1,223
Comprehensive income attributable to Genesis Energy, L.P.	\$ 19,088	\$ 5,721	\$ 43,476	\$ 27,020

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****GENESIS ENERGY, L.P.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL***(In thousands)*

	Partners Number of Common Units	Capital Common Unitholders
Partners capital, December 31, 2010	64,615	\$ 669,264
Net income		43,476
Cash distributions		(82,067)
Issuance of units	7,350	184,969
Partners capital, September 30, 2011	71,965	\$ 815,642

	Number of Common Units	Common Unitholders	General Partner	Partners Accumulated Other Comprehensive Loss	Capital Non- Controlling Interests	Total Capital
Partners capital, December 31, 2009	39,488	\$ 585,554	\$ 11,152	\$ (829)	\$ 23,056	\$ 618,933
Comprehensive income:						
Net income		20,052	6,139		(2,082)	24,109
Current period reclassification to earnings interest rate swaps				1,035	1,077	2,112
Changes in derivative financial instruments interest rate swaps				(206)	(218)	(424)
Cash contributions			37			37
Cash distributions		(43,644)	(7,909)		(5)	(51,558)
Contribution for executive compensation			1,289			1,289
Unit based compensation expense	98	20				20
Acquisition of non-controlling interest in DG Marine		(4,903)	(100)		(21,268)	(26,271)
Partners capital, September 30, 2010	39,586	\$ 557,079	\$ 10,608	\$	\$ 560	\$ 568,247

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**Table of Contents****GENESIS ENERGY, L.P.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands)*

	Nine Months Ended September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 43,476	\$ 24,109
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	42,749	40,489
Amortization and write-off of credit facility issuance costs	2,102	2,498
Amortization of unearned income and initial direct costs on direct financing leases	(12,968)	(13,275)
Payments received under direct financing leases	16,389	16,389
Equity in earnings of investments in equity investees	(3,377)	(922)
Cash distributions of earnings of equity investees	6,725	1,494
Non-cash effect of equity-based compensation plans	(1,505)	1,941
Non-cash compensation credit		1,289
Deferred and other tax liabilities	(27)	649
Unrealized (gains) losses on derivative transactions	(4,370)	2,284
Other, net	690	139
Net changes in components of operating assets and liabilities, net of acquisitions (See Note 11)	(50,738)	(43,010)
Net cash provided by operating activities	39,146	34,074
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments to acquire fixed and intangible assets	(15,157)	(8,799)
Cash distributions received from equity investees return of investment	8,577	308
Investments in equity investees	(194)	
Acquisition of FMT assets	(143,489)	
Proceeds from asset sales	4,444	1,127
Other, net	129	(371)
Net cash used in investing activities	(145,690)	(7,735)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Bank borrowings	571,700	561,429
Bank repayments	(563,800)	(502,329)
Credit facility issuance fees	(3,018)	(7,584)
Issuance of common units for cash, net	184,969	
General partner contributions		37
Noncontrolling interests contributions, net of distributions		(5)
Distributions to common unitholders	(82,067)	(43,644)
Distributions to general partner interest		(7,909)
Acquisition of non-controlling interests in DG Marine		(26,271)
Other, net	(2,626)	(1,153)
Net cash provided by (used in) financing activities	105,158	(27,429)
Net decrease in cash and cash equivalents	(1,386)	(1,090)
Cash and cash equivalents at beginning of period	5,762	4,148
Cash and cash equivalents at end of period	\$ 4,376	\$ 3,058

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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**GENESIS ENERGY, L.P.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Basis of Presentation and Consolidation**

*Organization*

We are a growth-oriented master limited partnership focused on the midstream segment of the oil and gas industry in the Gulf Coast area of the United States. We conduct our operations through our operating subsidiaries and joint ventures. We manage our businesses through three divisions:

Pipeline transportation of crude oil and carbon dioxide (or CO<sub>2</sub>);

Refinery services involving processing of high sulfur (or sour) gas streams for refineries to remove the sulfur, and sale of the related by-product, sodium hydrosulfide (or NaHS, commonly pronounced nash); and

Supply and logistics services, which includes terminaling, blending, storing, marketing, and transporting crude oil, petroleum products and CO<sub>2</sub>.

In February 2010, new investors, together with members of our executive management team, acquired our general partner. At that time, our general partner owned all our 2% general partner interest and all of our incentive distribution rights, or IDRs. In respect of its general partner interest and IDRs, our general partner was entitled to over 50% of any increased distributions we would pay in respect of our outstanding equity.

On December 28, 2010, we permanently eliminated our IDRs and converted our 2% general partner interest into a non-economic interest, which we refer to as our IDR Restructuring. We issued Class A Units, Class B Units and Waiver Units to the former stakeholders of our general partner in exchange for the elimination of our IDRs. See additional information on our outstanding equity in Note 8.

*Basis of Presentation and Consolidation*

The accompanying Unaudited Condensed Consolidated Financial Statements include Genesis Energy, L.P. and its operating subsidiaries, Genesis Crude Oil, L.P. and Genesis NEJD Holdings, LLC, and their subsidiaries, and Genesis Energy, LLC, our general partner. The inclusion of Genesis Energy, LLC in our Consolidated Financial Statements was effective December 28, 2010 due to our IDR Restructuring.

Our results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. The condensed consolidated financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they reflect all adjustments (which consist solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial results for interim periods. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the information contained in the periodic reports we file with the SEC pursuant to the Securities Exchange Act of 1934, including the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Except per unit amounts, or as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.

**2. Recent Accounting Developments**

*Recently Issued*

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In September 2011, the Financial Accounting Standards Board ( FASB ) issued guidance that simplified how an entity tests goodwill for impairment. The revised guidance provides an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment. Under the revised guidance, an entity is permitted to first assess qualitative factors to determine whether goodwill impairment exists prior to performing analyses comparing the fair value of a reporting unit to its carrying amount. If, after assessing the totality of events or circumstances, an

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**GENESIS ENERGY, L.P.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The guidance will be effective for us beginning January 1, 2012; however early adoption is permitted. We intend to adopt the FASB's guidance early and do not believe the adoption of the guidance will have a significant impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued guidance that modified how comprehensive income is presented in an entity's financial statements. The guidance issued requires an entity to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of equity. The revised financial statement presentation for comprehensive income will be effective for us beginning January 1, 2012, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on our financial position, results of operations or cash flows.

*Recently Adopted*

In December 2010, the FASB revised its guidance for disclosure requirements of supplementary pro forma information for business combinations. The objective of the revised guidance is to address diversity in practice regarding pro forma disclosures for revenues and earnings of an acquired entity and specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments, which went into effect on January 1, 2011, will be adhered to any future material business combinations.

**3. Acquisition**

*FMT Black Oil Barge Transportation Business*

On August 9, 2011, Genesis completed the acquisition of the black oil barge transportation business of Florida Marine Transporters, Inc. and its affiliates, or FMT. The purchase price was \$141 million plus customary adjustments. The acquired business is comprised of 30 barges (seven of which are being sub-leased under similar terms of an existing FMT lease) and 14 push/tow boats which transport heavy refined products, primarily serving refineries and storage terminals along the Gulf Coast, Intracoastal Canal and western river systems of the United States, including the Red, Ouachita and Mississippi Rivers. The barges have an average age of approximately three years with 13 having been in service three years or less.

The financial results of the acquired business will be included in the supply and logistics segment. The acquisition is intended to complement and further integrate certain existing operations, including the DG Marine inland barge business (comprised of 20 barges and 10 push/tow boats), storage and blending terminals and crude oil pipeline systems. The expanded fleet of 50 barges are capable of transporting heavy refined products, including asphalt, and with minor modifications, half of the barges (representing 750,000 barrels of capacity) will be capable of transporting crude oil as well.

The acquisition and related transaction costs were funded with a portion of the net proceeds from the July 2011 public offering of our common units. See Note 8 for additional information regarding the unit offering.

The total acquisition cost has been allocated to the assets acquired based on estimated preliminary fair values. Such preliminary fair values were developed by management. We do not expect any material adjustments to these preliminary purchase price allocations as a result of the final valuation.

**Table of Contents****GENESIS ENERGY, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The preliminary allocation of the acquisition cost is summarized as follows:

Property and equipment:	
Barges	\$ 84,942
Boats	56,117
Spare parts inventory	405
Other current assets:	
Fuel and lube oil in vessels	2,025
<b>Total allocated cost</b>	<b>\$ 143,489</b>

**4. Inventories**

The major components of inventories were as follows:

	September 30, 2011	December 31, 2010
Crude oil	\$ 11,130	\$ 6,128
Petroleum products	61,253	38,588
Caustic soda	8,864	6,309
NaHS	8,483	4,387
Other		16
<b>Total inventories</b>	<b>\$ 89,730</b>	<b>\$ 55,428</b>

Inventories are valued at the lower of cost or market. The costs of inventories exceeded market values by approximately \$1.6 million at September 30, 2011, and we reduced the value of inventory in our unaudited condensed consolidated financial statements for this difference. At December 31, 2010, market values of our inventories exceeded recorded costs.

**5. Equity Investees**

We are accounting for our 50% ownership in Cameron Highway Oil Pipeline Company ( Cameron Highway ) under the equity method of accounting.

The following table reflects summarized income statement information for Cameron Highway for only the three and nine months ended September 30, 2011 as we did not acquire our 50% equity interest in Cameron Highway until November 23, 2010.

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Revenues	\$ 7,975	\$ 32,819
Operating Income	\$ 576	\$ 11,768
Net Income	\$ 576	\$ 11,778

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We received cash distributions from Cameron Highway of \$2.8 million and \$13.8 million for the three and nine months ended September 30, 2011, respectively

Net income from Cameron Highway was reduced in the third quarter of 2011 as a result of lower throughput volumes by certain producers due to their field improvement activities.

**Table of Contents****GENESIS ENERGY, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****6. Intangible Assets and Goodwill***Intangible Assets*

The following table reflects the components of intangible assets being amortized as of:

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Refinery services customer relationships	\$ 94,654	\$ 59,868	\$ 34,786	\$ 94,654	\$ 53,139	\$ 41,515
Supply and logistics customer relationships	35,430	22,683	12,747	35,430	19,981	15,449
Refinery services supplier relationships	36,469	33,448	3,021	36,469	31,476	4,993
Refinery services licensing agreements	38,678	18,553	20,125	38,678	15,786	22,892
Supply and logistics trade names	18,888	13,776	5,112	18,888	7,530	11,358
Intangibles associated with supply and logistics lease	13,260	1,973	11,287	13,260	1,618	11,642
Other	16,692	2,447	14,245	13,776	1,450	12,326
Total	\$ 254,071	\$ 152,748	\$ 101,323	\$ 251,155	\$ 130,980	\$ 120,175

Amortization expense on intangible assets was \$7.7 million and \$22.4 million for the three and nine months ended September 30, 2011, respectively. Amortization expense on intangible assets was \$6.7 million and \$20.0 million for the three and nine months ended September 30, 2010, respectively.

The following table reflects our estimated amortization expense for each of the five subsequent fiscal years:

Year Ended December 31,	Amortization Expense to be Recorded
Remainder of 2011	\$ 8,762
2012	\$ 19,930
2013	\$ 14,370
2014	\$ 12,109
2015	\$ 10,304

In the first quarter of 2011, we adjusted the useful lives of our supply and logistics trade names. As a result of this change in the amortization period of our assets, operating income and net income attributable to us for the three and nine months ended September 30, 2011 decreased \$1.4 million, or \$0.02 per common unit and \$4.3 million, or \$0.07 per common unit, respectively. The impact of this change on net income for the remainder of 2011 and 2012 is expected to total \$1.4 million and \$2.3 million, respectively, and not be material in future periods. The table of estimated future amortization expense above reflects this change.

*Goodwill*

The carrying amount of goodwill by business segment at both September 30, 2011 and December 31, 2010 was \$301.9 million to refinery services and \$23.1 million to supply and logistics.





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**GENESIS ENERGY, L.P.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**7. Debt**

On August 19, 2011, we amended our senior secured revolving credit facility to increase the committed amount from \$525 million to \$775 million and the accordion feature from \$125 million to \$225 million, giving us the ability to expand the size of the facility up to an aggregate \$1 billion, subject to lenders' consent. The amendment also increased the inventory financing sublimit tranche that we may use to finance the purchase and sale of certain petroleum products subject to sales contracts or hedging agreements and related storage and transportation costs from \$75 million to \$125 million. We deferred approximately \$3.0 million of costs incurred in connection with this amendment and will amortize these costs over the remaining life of the credit facility.

All borrowings under our revolving credit facility bear interest, at our option, either at an alternate base rate or a Eurodollar rate. The applicable margin, which is a component of the interest on both the alternate base rate and the Eurodollar rate borrowings, previously varied from 1.5% to 2.5% per annum for alternate base rate borrowings and from 2.5% to 3.5% per annum for Eurodollar rate borrowings, depending on our leverage ratio. The amendment reduced the applicable margin to 1.0% to 2.0% per annum for alternate base rate borrowings and 2.0% to 3.0% per annum for Eurodollar borrowings, depending on our leverage ratio. In addition, the amendment changed the commitment fee on the unused commitment amount from 0.500% per annum to 0.375% to 0.500% per annum, depending on our leverage ratio.

As of September 30, 2011, we had \$367.9 million borrowed under our senior secured credit facility, with \$47.9 million of that amount designated as a loan under the inventory sublimit. Additionally, we had \$4.3 million in letters of credit outstanding. Due to the revolving nature of loans under our credit facility, additional borrowings and periodic repayments and re-borrowings may be made until the maturity date of June 30, 2015. The total amount available for borrowings at September 30, 2011 was \$402.8 million under our credit facility.

We believe the amounts included in our balance sheet for debt outstanding under our senior secured credit facility approximate fair value as interest rates reflect current market rates. At September 30, 2011, \$250 million of senior unsecured notes were outstanding, which had a fair value of approximately \$235.3 million.

We believe we were in compliance with the financial covenants contained in our credit facility and indenture as of September 30, 2011.

**8. Partners' Capital, Distributions and Net Income Per Common Unit**

*Partners' Capital*

At September 30, 2011, our outstanding equity consisted of 71,925,065 Class A Units and 39,997 Class B Units. Additionally 6,949,004 Waiver Units were outstanding. In July 2011, we issued 7,350,000 Class A Units in a public offering. We received proceeds, net of underwriting discounts and offering costs, of \$185 million from the offering.

**Table of Contents****GENESIS ENERGY, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Distributions*

We paid or will pay the following distributions in 2010 and 2011:

Distribution For	Date Paid	Per Unit Amount	Limited Partner Interests Amount	General Partner Interest Amount	General Partner Incentive Distribution Amount	Total Amount
Fourth quarter 2009	February 2010	\$ 0.3600	\$ 14,251	\$ 291	\$ 2,037	\$ 16,579
First quarter 2010	May 2010	\$ 0.3675	\$ 14,548	\$ 297	\$ 2,339	\$ 17,184
Second quarter 2010	August 2010	\$ 0.3750	\$ 14,845	\$ 303	\$ 2,642	\$ 17,790
Third quarter 2010	November 2010	\$ 0.3875	\$ 15,339	\$ 313	\$ 3,147	\$ 18,799
Fourth quarter 2010	February 2011	\$ 0.4000	\$ 25,846	\$	\$	\$ 25,846
First quarter 2011	May 2011	\$ 0.4075	\$ 26,343	\$	\$	\$ 26,343
Second quarter 2011	August 2011 <sup>(1)</sup>	\$ 0.4150	\$ 29,878	\$	\$	\$ 29,878
Third quarter 2011	November 2011 <sup>(2)</sup>	\$ 0.4275	\$ 30,777	\$	\$	\$ 30,777

(1) This distribution included \$3.1 million of distributions on the 7,350,000 Class A Common Units issued in July 2011.

(2) This distribution will be paid on November 14, 2011 to unitholders of record as of November 3, 2011.

*Net Income Per Common Unit*

The following table sets forth the computation of basic and diluted net income per common unit.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Numerators for basic and diluted net income per common unit:</b>				
Net income attributable to Genesis Energy, L.P.	\$ 19,088	\$ 5,068	\$ 43,476	\$ 26,191
Less: General partner's incentive distribution to be paid for the period		(3,147)		(8,128)
Add: Expense for Class B Awards		2,965		1,289
<b>Subtotal</b>	<b>19,088</b>	<b>4,886</b>	<b>43,476</b>	<b>19,352</b>
Less: General partner 2% ownership		(98)		(387)
<b>Income available for common unitholders</b>	<b>\$ 19,088</b>	<b>\$ 4,788</b>	<b>\$ 43,476</b>	<b>\$ 18,965</b>
<b>Denominator for basic and diluted per common unit:</b>	<b>70,447</b>	<b>39,586</b>	<b>66,580</b>	<b>39,573</b>
<b>Basic and diluted net income per common unit</b>	<b>\$ 0.27</b>	<b>\$ 0.12</b>	<b>\$ 0.65</b>	<b>\$ 0.48</b>

**9. Business Segment Information**

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We define Segment Margin as revenues less product costs, operating expenses (excluding non-cash charges, such as depreciation and amortization), and segment general and administrative expenses, plus our equity in distributable cash generated by our equity investees. Our Segment Margin definition also excludes the non-cash effects of our stock appreciation rights compensation plan, and includes the non-income portion of payments received under direct financing leases. Our chief operating decision maker (our Chief Executive Officer) evaluates segment performance based on a variety of measures including Segment Margin, segment volumes, where relevant, and maintenance capital investment.

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In the first quarter of 2011, we reorganized our operating segments as a result of a change in the way our Chief Executive Officer evaluates the performance of operations, develops strategy and allocates capital resources. The results of our CO<sub>2</sub> marketing activities and processing of syngas through a joint venture, formerly reported in the industrial gases segment, are now included in our supply and logistics segment. The change in operating segments had no impact on our reportable units for goodwill purposes. The historical segment disclosures have been recast to be consistent with the current presentation. This recast also included combining revenues and costs and expenses for our industrial gases activities shown separately in our Unaudited Condensed Consolidated Statements of Operations in the 2010 period with revenues and costs and expenses for our supply and logistics activities.

	Pipeline Transportation	Refinery Services	Supply & Logistics	Total
<b>Three Months Ended September 30, 2011</b>				
Segment margin <sup>(a)</sup>	\$ 16,030	\$ 17,992	\$ 18,909	\$ 52,931
Maintenance capital expenditures	\$ 5	\$ 852	\$ 1,387	\$ 2,244
Revenues:				
External customers	\$ 12,658	\$ 50,982	\$ 766,560	\$ 830,200
Intersegment <sup>(b)</sup>	3,436	(2,590)	(846)	
Total revenues of reportable segments	\$ 16,094	\$ 48,392	\$ 765,714	\$ 830,200
<b>Three Months Ended September 30, 2010</b>				
Segment margin <sup>(a)</sup>	\$ 11,920	\$ 16,218	\$ 11,235	\$ 39,373
Maintenance capital expenditures	\$ 161	\$ 354	\$ 201	\$ 716
Revenues:				
External customers	\$ 11,059	\$ 40,246	\$ 524,707	\$ 576,012
Intersegment <sup>(b)</sup>	3,028	(1,809)	(1,219)	
Total revenues of reportable segments	\$ 14,087	\$ 38,437	\$ 523,488	\$ 576,012

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	Pipeline Transportation	Refinery Services	Supply & Logistics	Total
<b><u>Nine Months Ended September 30, 2011</u></b>				
Segment margin <sup>(a)</sup>	\$ 50,639	\$ 54,887	\$ 44,233	\$ 149,759
Maintenance capital expenditures	\$ 231	\$ 1,219	\$ 2,183	\$ 3,633
Revenues:				
External customers	\$ 37,302	\$ 151,899	\$ 2,093,587	\$ 2,282,788
Intersegment <sup>(b)</sup>	8,331	(6,598)	(1,733)	
Total revenues of reportable segments	\$ 45,633	\$ 145,301	\$ 2,091,854	\$ 2,282,788
<b><u>Nine Months Ended September 30, 2010</u></b>				
Segment margin <sup>(a)</sup>	\$ 33,756	\$ 45,668	\$ 28,463	\$ 107,887
Maintenance capital expenditures	\$ 295	\$ 1,169	\$ 795	\$ 2,259
Revenues:				
External customers	\$ 33,969	\$ 111,964	\$ 1,353,148	\$ 1,499,081
Intersegment <sup>(b)</sup>	7,201	(5,804)	(1,397)	
Total revenues of reportable segments	\$ 41,170	\$ 106,160	\$ 1,351,751	\$ 1,499,081

a) A reconciliation of Segment Margin to income before income taxes for the periods presented is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Segment margin	\$ 52,931	\$ 39,373	\$ 149,759	\$ 107,887
Corporate general and administrative expenses	(8,194)	(9,769)	(23,267)	(21,174)
Depreciation and amortization	(14,593)	(13,477)	(42,749)	(40,489)
Net loss on disposal of surplus assets	(113)	(7)	(351)	(25)
Interest expense	(8,960)	(6,542)	(26,670)	(13,506)
Distributable cash from equity investees in excess of equity in earnings	(3,701)	(123)	(11,925)	(880)
Non-cash items not included in segment margin	3,061	(4,301)	2,729	(2,966)
Cash payments from direct financing leases in excess of earnings	(1,171)	(1,136)	(3,424)	(2,911)
Income before income taxes	\$ 19,260	\$ 4,018	\$ 44,102	\$ 25,936

b) Intersegment sales were conducted on an arm's length basis.



**Table of Contents****GENESIS ENERGY, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****10. Transactions with Related Parties**

Sales, purchases and other transactions with affiliated companies, in the opinion of management, are conducted under terms no more or less favorable than then-existing market conditions. Affiliates of Denbury Resources, Inc. sold its interests in our general partner on February 5, 2010. Transactions with Denbury are included in the table below as related party transactions through February 5, 2010.

The transactions with related parties were as follows:

	Nine Months Ended September 30,	
	2011	2010
Petroleum products sales to an affiliate of the Robertson Group	\$ 27,202	\$
Marine operating fuel and expenses provided by an affiliate of the Robertson Group	2,722	1,932
Sales of CO <sub>2</sub> to Sandhill	1,921	2,101
Petroleum products sales to Davison family businesses	1,224	832
Operations, general and administrative services provided by our general partner <sup>(1)</sup>		34,827
Truck transportation services provided to Denbury		182
Pipeline transportation and monitoring services provided to Denbury		1,365
Payments received under direct financing leases from Denbury		1,375
Pipeline transportation income portion of direct financing lease fees from Denbury		99
CO <sub>2</sub> transportation services provided by Denbury		1,502
		373

(1) Our general partner became a wholly-owned subsidiary in December 2010.

*Amounts due to and from Related Parties*

At September 30, 2011 and December 31, 2010, an affiliate of the Robertson Group owed us \$0.2 million and \$1.4 million, respectively, for petroleum products purchases, and we owed the affiliate \$0.1 million and \$0.2 million, respectively, for marine-related costs. Sandhill owed us \$0.2 million for purchases of CO<sub>2</sub> at September 30, 2011 and December 31, 2010.

**11. Supplemental Cash Flow Information**

The following table provides information regarding the net changes in components of operating assets and liabilities.



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	Nine Months Ended September 30,	
	2011	2010
Decrease (increase) in:		
Accounts receivable	\$ (52,355)	\$ (39,771)
Inventories	(34,757)	(25,571)
Other current assets	1,515	831
Increase (decrease) in:		
Accounts payable	16,953	22,503
Accrued liabilities	17,906	(1,002)
Net changes in components of operating assets and liabilities	\$ (50,738)	\$ (43,010)

Payments of interest and commitment fees were \$20.3 million and \$10.8 million for the nine months ended September 30, 2011 and 2010, respectively.

Cash paid for income taxes during the nine months ended September 30, 2011 and 2010 was \$1.0 million and \$2.2 million, respectively.

At September 30, 2011, we had incurred liabilities for fixed and intangible asset additions totaling \$1.3 million that had not been paid at the end of the third quarter, and, therefore, are not included in the caption *Payments to acquire fixed and intangible assets* under investing activities on the Unaudited Condensed Consolidated Statements of Cash Flows. At September 30, 2010, we had incurred \$2.0 million of such liabilities that had not been paid at that date and are not included in *Payments to acquire fixed and intangible assets* and *Other, net* under investing activities.

**12. Derivatives***Commodity Derivatives*

At September 30, 2011, we had the following outstanding derivative commodity futures, forwards and options contracts that were entered into to hedge inventory or fixed price purchase commitments. We had no outstanding derivative contracts that were designated as hedges under accounting rules.

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	Sell (Short) Contracts	Buy (Long) Contracts
<b>Not qualifying or not designated as hedges under accounting rules:</b>		
Crude oil futures:		
Contract volumes (1,000 bbls)	369	342
Weighted average contract price per bbl	\$ 85.51	\$ 86.34
Heating oil futures:		
Contract volumes (1,000 bbls)	135	30
Weighted average contract price per gal	\$ 2.86	\$ 2.98
RBOB gasoline futures:		
Contract volumes (1,000 bbls)	13	
Weighted average contract price per gal	\$ 2.53	\$
#6 Fuel oil futures:		
Contract volumes (1,000 bbls)	705	45
Weighted average contract price per bbl	\$ 97.18	\$ 96.71
Crude oil written options:		
Contract volumes (1,000 bbls)	120	
Weighted average premium received	\$ 2.31	\$
Heating oil written options:		
Contract volumes (1,000 bbls)	10	
Weighted average premium received	\$ 7.69	\$

**Table of Contents****GENESIS ENERGY, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Financial Statement Impacts*

The following tables reflect the estimated fair value gain (loss) position of our derivatives and related inventory impact for qualifying hedges at September 30, 2011 and December 31, 2010:

## Fair Value of Derivative Assets and Liabilities

	Asset Derivatives			
	Unaudited		Fair Value	
	Condensed	Consolidated	September 30, 2011	December 31, 2010
	Balance Sheets Location			
<b>Commodity derivatives futures and call options:</b>				
Hedges designated under accounting guidance as fair value hedges	Other Current Assets		\$	\$ 14
Undesignated hedges	Other Current Assets		5,966	493
Total asset derivatives			\$ 5,966	\$ 507
<b>Liability Derivatives</b>				
	Unaudited		Fair Value	
	Condensed	Consolidated	September 30, 2011	December 31, 2010
	Balance Sheets Location			
<b>Commodity derivatives forwards futures and call options:</b>				
Hedges designated under accounting guidance as fair value hedges	Other Current Assets		\$	\$ (191) <sup>(1)</sup>
Undesignated hedges	Other Current Assets		(3,108) <sup>(1)</sup>	(2,283) <sup>(1)</sup>
Total liability derivatives			(3,108)	(2,474)

(1) These derivative liabilities have been funded with margin deposits recorded in our Unaudited Condensed Consolidated Balance Sheets in Other Current Assets.

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	Effect on Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income					
	Amount of Gain (Loss) Recognized in Income					
	Supply & Logistics Product Costs		Interest Expense Reclassified from AOCL		Other Comprehensive Loss	
	Three Months Ended September 30,		Three Months Ended September 30,		Effective Portion Three Months Ended September 30,	
	2011	2010	2011	2010	2011	2010
Commodity derivatives forwards futures and call options:						
Contracts designated as hedges under accounting guidance	\$ (1)	\$ (354) <sup>(1)</sup>	\$	\$	\$	\$
Contracts not considered hedges under accounting guidance	2,587	(138)				
Total commodity derivatives	2,587	(492)				
Interest rate swaps designated as cash flow hedges under accounting guidance					(1,553)	(224)
Total derivatives	\$ 2,587	\$ (492)	\$	\$ (1,553)	\$	\$ (224)

	Effect on Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income					
	Amount of Gain (Loss) Recognized in Income					
	Supply & Logistics Product Costs		Interest Expense Reclassified from AOCL		Other Comprehensive Loss	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Effective Portion Nine Months Ended September 30,	
	2011	2010	2011	2010	2011	2010
Commodity derivatives forwards futures and call options:						
Contracts designated as hedges under accounting guidance	\$ (173) <sup>(1)</sup>	\$ 952 <sup>(1)</sup>	\$	\$	\$	\$
Contracts not considered hedges under accounting guidance	(11,050)	4,287				
Total commodity derivatives	(11,223)	5,239				
Interest rate swaps designated as cash flow hedges under accounting guidance					(2,112)	(424)
Total derivatives	\$ (11,223)	\$ 5,239	\$	\$ (2,112)	\$	\$ (424)

(1) Represents the amount of loss recognized in income for derivatives related to the fair value hedge of inventory. The amount excludes the gain on the hedged inventory under the fair value hedge of \$0.8 million for the nine months ended September 30, 2011 and excludes the gain recorded on the hedged inventory of \$0.8 million and \$0.5 million for the three and nine months ended September 30, 2010.



**Table of Contents****GENESIS ENERGY, L.P.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****13. Fair-Value Measurements**

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2011. As required by fair value accounting guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value requires judgment and may affect the placement of assets and liabilities within the fair value hierarchy levels.

Recurring Fair Value Measures	Fair Value at September 30, 2011			Fair Value at December 31, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Commodity derivatives:						
Assets	\$ 5,966	\$	\$	\$ 507	\$	\$
Liabilities	\$ (3,108)	\$	\$	\$ (2,474)	\$	\$
Level 1						

Included in Level 1 of the fair value hierarchy as commodity derivative contracts are exchange-traded futures and exchange-traded option contracts. The fair value of these exchange-traded derivative contracts is based on unadjusted quoted prices in active markets and is, therefore, included in Level 1 of the fair value hierarchy.

## Level 2

At September 30, 2011 and December 31, 2010, we had no Level 2 fair value measurements.

Level 2 fair values are based on pricing inputs other than quoted prices in active markets (as reflected in Level 1 fair values) and are either directly or indirectly observable as of the measurement date. Level 2 fair values include instruments that are valued using financial models or other appropriate valuation methodologies. Such financial models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, the time value of money, volatility factors, current market and contractual prices for the underlying instruments and other relevant economic measures. Substantially all of these assumptions are: (i) observable in the marketplace throughout the full term of the instrument; (ii) can be derived from observable data; or (iii) are validated by inputs other than quoted prices (e.g., interest rate and yield curves at commonly quoted intervals). Our Level 2 fair values consist of forward commodity derivative instruments. The fair values of these derivative instruments are based on observable price quotes for similar products and locations.

## Level 3

At September 30, 2011 and December 31, 2010, we had no Level 3 fair value measurements.

In 2010 and 2009, our interest rate swaps were included within Level 3 of the fair value hierarchy. These swaps were settled in July 2010 in connection with the acquisition of the 51% of DG Marine we did not own and the termination of DG Marine's credit facility. The following table provides a reconciliation of changes in fair value of the beginning and ending balances for our derivatives measured at fair value using inputs classified as Level 3 in the fair value hierarchy:

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	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Balance at beginning of period	(1,329)	(1,688)
Realized and unrealized gains (losses)		
Reclassified into interest expense for settled contracts	1,553	2,112
Included in other comprehensive income	(224)	(424)
Balance at end of period	\$	